

Pre-tax Commuter Benefits For Your Employees

Get Going in **5** Easy Steps



You've done your homework and decided that
Pre-tax Commuter Benefits make good sense
for your company and your employees.

Now...what comes next?

Pre-tax Brochure Contents:

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YOUR ONLINE PRE-TAX TOOLKIT: <http://transit.metrokc.gov>, select "Programs," then "Employer Commute Services," and "Tax Benefits"

STEP 1: Decide it's a GO!

IT'S EASY...to get your Pre-tax Commuter Benefit program up and running when you follow just five simple steps:

To begin, get approval from management to make Pre-tax Commuter Benefits available to your employees.

Your management may have questions: How does the program work? How much will it cost? How much administrative time will it require?

Here are some important points to share with them:

✓ **The Pre-tax benefit has no cost to the employer** unless your company chooses to contribute to the purchase of transit passes, ticketbooks, or vouchers. (See "The Pre-tax Commuter Benefit" box on this page.)

✓ **The Pre-tax Commuter Benefit is only available to employees through the employer.** Employees cannot take advantage of this IRS authorized program on their own.

✓ **Administrative time is minimal.**

✓ **More and more employers of all sizes recognize the value** of adding commuting benefits to their employee benefits package. According to the Employment Policy Foundation, employee turnover costs average 25 percent of an employee's annual salary. Employee satisfaction pays off for your company!

The Pre-tax Commuter Benefit

Under Section 132(f) of the federal tax code, and at an employee's request, an employer may deduct up to \$105 of the employee's monthly wages before payroll taxes are calculated in order to purchase bus/train/ferry passes, or vouchers to pay vanpool fares. The employee pays the cost and receives the tax savings; the employer handles the transaction to purchase the pass or voucher.

If the employer also chooses to contribute to the cost of buying the pass or voucher, the amount deducted from the employee's wages is reduced. Here's an example: If the employee needs a \$72 bus pass and your company decides to cover \$30 per month of the cost, then the pre-tax deduction from employee wages would be \$42. The employee receives a \$72 bus pass from your company. (NOTE: The total employer contribution plus employee pre-tax contribution may not exceed \$105/month in the 2005 tax year.)

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Involve payroll & accounting

Make the necessary arrangements with your payroll department or payroll service to set aside employees' pre-tax wages. Work with accounting to determine a procedure for purchasing qualified transit passes, ticketbooks, or vouchers.

- ✓ **Set up a separate accounting code for 132(f) transit benefit funds.** These funds cannot be combined with other pre-tax benefits such as Section 125 Flexible Spending Accounts for health care plans. Section 132(f) benefits are simpler, easier to administer and more flexible than Section 125 accounts. For a detailed comparison of 132(f) and 125 Pre-tax Benefits, see "Your Online Pre-tax Toolkit" at the website listed in the blue bar at the bottom of the page.
- ✓ **Establish a timeline for starting your program.** Decide when deductions will be made from employee paychecks. Determine when monthly passes, ticketbooks, or vouchers will be ordered from transit agencies and delivered to your company. There are many ways to set up your order so that it is automatically filled and delivered each month.
- ✓ **Decide how often you will allow employees to change their deductions or participation.** For example, some companies allow employees to sign up in any month and allow changes or cancellations when requested before the next payroll period. Just be sure employees know the policy.
- ✓ **Determine what your company will order for employees:** passes, ticketbooks, and/or vouchers.
- ✓ **Determine the best way for your company to buy these.** Designate the department and person who will be responsible for monthly purchases. Check the "FAQ" section of this brochure for more information about ways to buy transit passes, ticketbooks, and vouchers.



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Notify employees & sign them up

For employees to take advantage of their new pre-tax benefit, they will need advance notice and details such as what it is; how it can benefit them; when it will be available; how they can sign up; and how they will receive their passes.

- ✓ **Tell your employees about their new pre-tax benefit.** Visit Metro's web site (see "Your Online Pre-tax Toolkit" in the blue bar at the bottom of the page) for easy-to-use formats that will help you prepare a flyer, poster or e-mail for distribution to your employees.
- ✓ **Help employees access transit schedules and fare information.** You don't need to be an expert on transit passes. In most cases, your employees will tell you what types of passes, ticketbooks, or vouchers to buy when they fill out their participation forms.

For bus route and schedule information, refer your employees to Metro's Trip Planner for bus information (<http://tripplanner.metrokc.gov>) or Rider Information at 206-553-3000. Information about Metro fares and passes is online at: http://transit.metrokc.gov/tops/fare/fare-info.html#peak_zone. For vanpools, refer employees to www.RideshareOnline.com.

- ✓ **Have employees fill out a participation form.** This will indicate which type of bus/train/ferry pass, ticketbook, or vanpool voucher they want and how much should be deducted from their wages to pay for it. For a sample participation form, see "Your Online Pre-tax Toolkit" at the website listed in the blue bar below.

Cost of Frequently Used Commuter Passes*

Although transit passes range in face value from 50¢ to \$4, two of the most frequently used transit passes for commuting are the \$1.50 face value pass (monthly pass cost of \$54) and the \$2 face value pass (monthly pass cost of \$72).

*2005 prices

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STEP

4

Deduct pre-tax \$ & purchase passes

The monthly transactions are straightforward and easy:

- ✓ **Have your payroll department or provider deduct pre-tax dollars** for each participating employee and place these funds under your separate accounting code for Pre-tax Commuter Benefits.
- ✓ **Purchase the passes, ticketbooks, or vouchers from Metro or another transit agency** using the funds in the pre-tax account.
- ✓ **Ideally, the total pre-tax deductions from employees wages will have a corresponding payable** to the transit agencies each month unless you have decided to subsidize a portion of the transit pass expense for employees.
- ✓ **Pre-tax dollars, once deducted, cannot be returned to employees.** However, the funds will not accumulate since they are used each month to purchase the requested passes. If an employee asks to skip a month after the deduction is made, but before passes are ordered, that deduction can be held and used for a future month. It can even be rolled over to the next year, if necessary.



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STEP

5

Distribute passes to employees

- ✓ Make sure your employees know **how and when** they will receive their passes, ticketbooks, or vouchers.

They will be looking forward to having these in hand before the first day of each month. So, if you are providing vouchers, be sure to give employees time to redeem them for monthly passes.



“We decided to offer employees a Pre-tax Commuter Benefit as a way to leverage our 50% monthly bus pass subsidy. More employees sign up for the program every month and even employees who don’t ride the bus have expressed appreciation for the added benefit. The program has helped ease our tight parking situation.”

Ron Zuccarelli, HR Director
The Hearthstone Retirement Home
at Green Lake

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FREQUENTLY ASKED QUESTIONS:

Q: Who can receive Pre-tax Commuter Benefits?

A: All W-2 recipients are eligible, including those who work for private sector companies; non-profit companies; federal government; and state and local governments (when legislation permits). Self-employed persons (sole proprietors and partners), contractors, and 2 percent shareholders of S Corporations are not eligible.

Q: What commute fares are eligible for the Pre-tax Commuter Benefit?

A: Fares on any mass transit (bus, rail, ferry, monorail) or vanpool are eligible when paid with a pass, ticketbook, or transit-provided voucher (redeemable for transit passes or ticketbooks). Passes, ticketbooks, and vouchers must be ordered and distributed by the employer (or third party administrator) to the employee.

Q: Are cash reimbursements allowed?

A: Cash reimbursements are generally not allowed in our region because transit-provided vouchers are readily available. Exceptions may include train tickets purchased at vending machines, monorail tickets, fares for privately owned vanpools, and parking.

Q: Does any type of vanpool qualify?

A: No. Vanpools must have a seating capacity of at least six adults, excluding the driver. The vanpools may be operated by a public transit agency, be employee-owned or -leased, or be employer-owned or -leased.

Q: How should we set up participation periods?

A: No specific employee participation periods are required. You decide when employees can enroll or change their existing participation. For example, you could allow new enrollments and changes monthly. Or, if the volume becomes prohibitive, you could allow changes only once each quarter.

Q: How often should payroll deductions be made?

A: Many employers choose weekly, bi-monthly, or monthly deductions. You can choose the cycle that works best for you—it need not match your payroll periods or the frequency with which you submit orders for transit passes, ticketbooks, and vouchers.

Q: How do we make sure all deductions are handled properly?

A: Have each participating employee fill out a form. Once you receive the completed participation forms, you can let your payroll department or provider know who these employees are and when and how much their deductions will be.

Q: Is there a limit on the benefit each employee can receive?

A: Yes. The Pre-tax Commuter Benefit applies to transit or vanpool fares up to \$105 per month and to qualified parking up to \$200 per month (2005 tax year). Employees can receive tax benefits up to \$305 per month (in 2005) if they use both transit/vanpool and qualified parking to commute to work. For more information on the parking benefit, consult your tax advisor.

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Q: What are the IRS reporting requirements?

A: Unlike other pre-tax benefit plans, Section 132(f) that governs Pre-tax Commuter Benefits does not require the creation or submittal of plan documents or filing of reports. However, in an audit, you would have to show an equivalent purchase from a transit agency of sums deducted from employees. That's why it is necessary to make sure your Pre-tax Commuter Benefits for transit fares are tracked under their own accounting code and not co-mingled with other pre-tax accounts, including Section 132(f) parking benefits.

Q: Do IRS use-it-or-lose-it stipulations apply?

A: No. Unlike other pre-tax benefit plans, there are no use-it-or-lose-it stipulations with Section 132(f). Other pre-tax benefits may require employees to spend the entire amount of their deductions by the end of the year. Since Pre-tax Commuter Benefits are given to employees as deductions are made, this issue does not apply.

Q: How do we know what transit passes, ticketbooks or vouchers to order each month?

A: The employee's participation form will tell you what he or she wants you to order. If you wish to understand all the fare options, more information is available on the web site at: <http://transit.metrokc.gov/prog/employer/ctr-psprogram.html> or by calling 206-263-3444.

Q: How do we order transit passes?

You can order transit passes, ticketbooks or vouchers in a number of ways:

1. Order transit passes online with a company credit card at: <http://buypass.metrokc.gov/>. Automatic monthly reorders are available.
2. Order transit passes or ticketbooks by mail and company check using the order form at: <http://transit.metrokc.gov/cs/faresales.html> or by phone and credit card at 206-624-PASS.
3. If you are ordering a minimum of 10 passes per month, you may qualify for a Metro consignment account. You place a standing order for the passes, and they are automatically mailed to your company each month. You then distribute the passes, send Metro a company check for the amount due, and return all unused passes. For more information, e-mail: employer.program@metrokc.gov or call 206-263-3444.
4. Vouchers that employees redeem for passes or ticketbooks can be purchased by mail only and company check using the order form at: <http://transit.metrokc.gov/prog/employer/pdf/cb-orderform.pdf>.
5. Order an annual FlexPass for all employees. Your company pays a minimum of 50% of the cost of each pass and the employee pays a maximum of 50%. For more information go to: <http://transit.metrokc.gov/prog/employer/ctr-fpprograms.html>.
6. Ferry passes can be ordered at the Washington State Ferries web page (<http://www.wsdot.wa.gov/ferries/index.cfm>). Automatic reorders are available. Monthly ferry passes are not available by mail except with a voucher as payment.

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What are the advantages of the Pre-tax Commuter Benefit

...for your company?

- ✓ Provide a visible and valuable employee benefit at little or no cost to your company.
- ✓ Enhance your employee wage and benefits package.
- ✓ Save nominally on FICA taxes.
- ✓ Encourage employees to leave their cars at home—freeing up worksite parking.
- ✓ The program is simple and flexible to set up and manage.

...for your employees?

- ✓ Save 20 – 40% on transit fares.
- ✓ Enjoy the convenience of receiving transit passes at work.
- ✓ Get real assistance with transportation alternatives in times of soaring fuel prices.
- ✓ Boost employee morale by demonstrating that your company wants to help.

“*The Pre-tax Commuter Benefit is a simple program that helps your employees save money and time...and an easy way to make a big impact on employee morale.*”

Devony Fitch, HR Manager
Tom Douglas Restaurants



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RESOURCES:

The following resources will help answer questions about your Pre-tax Commuter Benefits program:

How to buy bus passes & ticketbooks

206-624-PASS

<http://transit.metrokc.gov>

How to plan a bus trip

206-553-3000

<http://tripplanner.metrokc.gov>

How to find a carpool, vanpool or VanShare

206-625-4500 or 800-427-8249

www.RideshareOnline.com

How to buy a ferry pass or plan a ferry trip

www.wsdot.wa.gov/ferries/index.cfm

Other questions about Employer Commute Programs

206-263-3455

<http://transit.metrokc.gov>, select "Programs," then "Employer Commute Services"

For additional information about Pre-tax Commuter Benefits, contact Metro Employer Commute Services by e-mail at: employer.program@metrokc.gov or call 206-263-3444.

Employers are encouraged to consult a tax advisor or other professional for detailed information regarding the tax implications of commute benefits and incentives.

This brochure was reviewed by Christina Anderson, CPA, Seattle, Washington, 206-284-4100.



King County

METRO

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